2019

## **Instructions for Form 8995**



## **Qualified Business Income Deduction Simplified Computation**

Section references are to the Internal Revenue Code unless otherwise noted.

### **Future Developments**

For the latest information about developments related to Form 8995 and its instructions, such as legislation enacted after they were published, go to IRS.gov/Form8995.

## **General Instructions**

## **Purpose of Form**

Use Form 8995 to figure your qualified business income (QBI) deduction. Individual taxpayers and some trusts and estates may be entitled to a deduction of up to 20% of their net QBI from a trade or business, including income from a pass-through entity, but not from a C corporation, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. However, your total QBI deduction is limited to 20% of your taxable income, calculated before the QBI deduction, minus net capital gain.

# Who Can Take the Deduction

Individuals and eligible estates and trusts that have QBI use Form 8995 to figure the QBI deduction if:

- You have QBI, qualified REIT dividends, or qualified PTP income or loss (all defined later),
- Your 2019 taxable income before your QBI deduction is less than or equal to \$160,700 (\$160,725 if married filing separately or a married nonresident alien; \$321,400 if married filing jointly), and
- You aren't a patron in a specified agricultural or horticultural cooperative.

Otherwise, use Form 8995-A, Qualified Business Income Deduction, to figure your QBI deduction.

S corporations and partnerships. S corporations and partnerships aren't eligible for the deduction, but must pass through to their shareholders or partners the necessary information on an attachment to Schedule K-1 to help them figure their deduction. See the Instructions for Form 1120-S, U.S. Income Tax Return for an S Corporation, and Form 1065, U.S. Return of Partnership Income.

**Cooperatives.** Cooperatives aren't eligible for the deduction. Instead,

cooperatives must provide the necessary information to their patrons on Form 1099-PATR or an attachment to help eligible patrons figure their deduction. See the Instructions for Form 1120-C, U.S. Income Tax Return for Cooperative Associations, for rules applicable to agricultural and horticultural cooperatives.

Estates and trusts. To the extent that a grantor or another person is treated as owning all or part of a trust or estate, the owner will compute its QBI for the owned part of the trust as if that QBI had been received directly by the owner. Generally, a non-grantor trust or estate may either claim the QBI deduction or provide information to their beneficiaries to help the beneficiaries figure their deduction. In determining the QBI deduction or the information that must be provided to beneficiaries, the estate or trust allocates QBI items based on the relative proportion of the estate's or trust's distributable net income (DNI) for the tax year distributed (or required to be distributed) to the beneficiary or retained by the estate or trust. If the estate or trust has no DNI for the tax year, QBI, W-2 wages, and unadjusted basis immediately after acquisition (UBIA) of qualified property are allocated entirely to the estate or trust.

Although estates and trusts may compute their own QBI deduction, to the extent QBI, W-2 wages, and UBIA of qualified property is allocable to the trust, QBI, W-2 wages, and UBIA of qualified property allocated to beneficiaries aren't includible in the estate's or trust's QBI computation. See the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts.

Electing Small Business Trusts (ESBT). An ESBT must compute the QBI deduction separately for the S and non-S portions of the trust. Form 8995 used to compute the S portion's QBI deduction must be attached as a PDF to the ESBT tax worksheet filed with Form 1041. When attached to the ESBT tax worksheet, the trust must show that the information is applicable to the S portion only, by writing "ESBT" in the top margin of the Form 8995. See the Instructions for Form 1041.

## Determining Your Qualified Trades or Businesses

Your qualified trades and businesses include your trades or businesses for which you're allowed a deduction for ordinary and necessary business expenses under section 162. However, trades or businesses conducted by corporations and the performance of services as an employee aren't qualified trades or businesses. Generally, specified service trades or businesses (SSTBs) aren't qualified trades or businesses. However, all or a part of the SSTB may be qualified trade or business if your taxable income is at or below the threshold or within the phase-in range.

An activity qualifies as a trade or business if your primary purpose for engaging in the activity is for income or profit and you're involved in the activity with continuity and regularity. If you own an interest in a pass-through entity, the trade or business determination is made at that entity's level. Material participation under section 469 isn't required for the QBI deduction. Eligible taxpayers with income from a trade or business may be entitled to the QBI deduction if they otherwise satisfy the requirements of section 199A.

The ownership and rental of real property may constitute a trade or business if it meets the standard described above. Also, *Revenue Procedure 2019-38* provides a safe harbor under which a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. Rental real estate that doesn't meet the requirements of the safe harbor may still be treated as a trade or business for purposes of the QBI deduction if it's a section 162 trade or business.

The rental or licensing of property to a commonly controlled trade or business operated by an individual or a pass-through entity is considered a trade or business under section 199A.

Services performed as an employee excluded from qualified trades or businesses. The trade or business of performing services as an employee isn't a trade or business for purposes of section 199A. Therefore, any amounts reported on Form W-2, box 1, other than amounts reported in box 1 if "Statutory Employee"

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on Form W-2, box 13, is checked, aren't QBI. If you were previously an employee of a business and continue to provide substantially the same services to that business after you're no longer treated as an employee, there is a presumption that you're providing services as an employee for purposes of section 199A for the 3-year period after ceasing to be an employee. You may rebut this presumption on notice from the IRS by providing records such as contracts or partnership agreements that corroborate your status as a non-employee.

For more information on if you're an employee or an independent contractor, see Pub. 15-A, Employer's Supplemental Tax Guide, and Pub. 1779, Independent Contractor or Employee.

**SSTBs excluded from your qualified trades or businesses.** A SSTB is generally excluded from the definition of qualified trade or business.

An SSTB is any trade or business providing services in the fields of:

- Health;
- · Law;
- · Accounting;
- Actuarial science;
- · Performing arts;
- Consulting;
- · Athletics:
- Financial services;
- · Brokerage services;
- Investing and investment management;
- Trading or dealing in securities;
- Partnership interests;
- · Commodities;
- Any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners, as demonstrated by:
  - -Receiving fees, compensation, or other income for endorsing products or services;
  - -Licensing or receiving fees, compensation or other income for the use of taxpayer's image, likeness, name, signature, voice, trademark, or any other symbols associated with the individual's identity; or
  - Receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

Exception 1: If your 2019 taxable income before the QBI deduction is less than or equal to \$160,700 (\$160,725 if married filing separately or a married nonresident alien; \$321,400 if married filing jointly), your SSTB is treated as a qualified trade or business.

**Exception 2**: If your taxable income before the QBI deduction is more than \$160,700 but not \$210,700 (\$160,725 and \$210,725 if married filing separately or a married nonresident alien; \$321,400 and \$421,400 if married filing jointly), an

applicable percentage of your SSTB is treated as a qualified trade or business.

Aggregation. If you're engaged in more than one trade or business, each trade or business is a separate trade or business for purposes of section 199A. However, you may choose to aggregate multiple trades or businesses into a single trade or business for purposes of figuring deduction, if you meet the following requirements.

- 1. You or a group of persons directly or indirectly own 50% or more of each trade or business for majority of the tax year, including the last day of the tax year, and all trades or businesses use the same tax year end,
- 2. None of the trades or businesses are an SSTB, and
- 3. The trades or businesses meet at least two of the following factors.
- They provide products, property, or services that are the same or that are customarily offered together.
- b. They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
- c. They are operated in coordination with, or reliance on, one or more of the businesses in the aggregated group.

If a relevant pass-through entity (RPE) aggregates multiple trades or businesses, you must attach the RPE's aggregations to your return. You may not separate the trades or businesses aggregated by the RPE, but you may add additional trades or businesses to the aggregation, assuming the rules above are met.

If you choose to aggregate multiple trades or businesses, a statement similar to Schedule B (Form 8995-A) must be completed each year to show your trade or business aggregations and must include any aggregation of an RPE in which you hold a direct or indirect interest. Failure to disclose these aggregations may cause them to be disaggregated.

Your aggregations must be reported consistently for all subsequent years, unless there is a significant change in facts and circumstances that disqualify the aggregation.

**Note.** You must combine the QBI, W-2 wages, and UBIA of qualified property for all aggregated trades or businesses, for purposes of applying the W-2 wages and UBIA of qualified property limits. However, these limits won't apply until your income, before the QBI deduction, is more than the threshold. If your income is more than the threshold, you must use Form 8995-A.

## Determining Your Qualified Business Income

Your QBI includes items of income, gain, deduction, and loss from your trades or businesses that are effectively connected with the conduct of a trade or business in the United States. This includes income from partnerships (other than PTPs), S corporations, sole proprietorships, certain estates and trusts that are included or allowed in figuring your taxable income for the year. To figure the total amount of QBI, you must consider all items that are related to the trade or business. This includes, but isn't limited to, charitable contributions, unreimbursed partnership expenses, business interest expense, deductible part of self-employment tax, self-employment health insurance deduction, and contributions to qualified retirement plans. QBI doesn't include any of the following.

- Items that aren't properly included in income.
- Income that isn't effectively connected with the conduct of a trade or business within the United States (go to <u>IRS.gov/</u> ECI).
- Wage income (except "Statutory Employees" where Form W-2, box 13 is checked).
- Amounts received as reasonable compensation from an S corporation.
- Amounts received as guaranteed payments.
- Amounts received as payments by a partner for services other than in a capacity as a partner.
- Items treated as capital gains or losses under any provision of the Internal Revenue Code (Code).
- Dividends and dividend equivalents.
- Interest income not properly allocable to a trade or business.
- Commodities transactions or foreign currency gains or losses.
- Income, loss, or deductions from notional principal contracts.
- Annuities (unless received in connection with the trade or business).
- · Qualified REIT dividends.
- Qualified PTP income.

See the *QBI Flow Chart*, later to figure if an item of income, gain, deduction, or loss is included in QBI.

**Note.** Your QBI doesn't include any losses or deductions that are limited or suspended and not included or allowed in determining your taxable income for the year. Examples include, but aren't limited to, section 179 deduction limitations and losses limited by basis, at-risk, passive loss, or section 461(I), and excess business loss limitations. Instead, these losses and deductions are taken into account in the tax year they're included in determining your taxable income. Loss and deduction items that were generated

prior to 2018, that are included in income during the year, aren't included in QBI.

When losses or deductions from a trade or business are suspended under any provision of the Code and not available for use in calculating taxable income in the year generated, you must determine the portion of the losses includible in QBI in subsequent years. If your trade or business is an SSTB, the determination of whether it's a qualified trade or business based on your taxable income is made in the year the loss is incurred. If your income is within the phase-in range in that year, you must determine the applicable percentage of suspended losses or deductions includible in QBI. The losses continue their status as either items of QBI or non-QBI for all subsequent years. Therefore, you must track each category of loss or deduction (for example, section 465, 469, 1366, etc.) from year to year until the loss is included in taxable income. Each category's portion of loss allowed in calculating taxable income is treated as qualified business net loss carryforward (Form 8995, line 3, or Schedule C (Form 8995-A), line 2) in calculating the current year's QBI deduction.

Any suspended qualified business loss carryforward from an SSTB, when allowed in subsequent years, won't be included on the Schedule A (Form 8995-A).

Determining if items included on Schedule K-1 are included in QBI. The amounts reported on your Schedule K-1 as "QBI/Qualified PTP Items Subject to Taxpayer-Specific Determinations" from a partnership, S corporation, estate, or trust aren't automatically included in your QBI. To figure if the item of income, gain, deduction, or loss is included in QBI, you must look to how it's reported on your federal income tax return. For example, ordinary business income or loss is generally included in QBI if it was used in computing your taxable income, not excluded, suspended, or disallowed under any other section of the Code. Also, a section 1231 gain or loss is only includible in QBI if it isn't capital gain or loss. See the QBI Flow Chart, below to figure if an item of income, gain, deduction, or loss is included in QBI.

## Determining if information reported on your Form 1099-PATR is included in

QBI. The amounts reported to you as your share of patronage dividends and similar payments on Form 1099-PATR aren't automatically included in your QBI. Payments may be included in QBI to the extent they are (1) related to your trade or business, (2) reported to you by the cooperative as qualified income items on an attachment to Form 1099-PATR, and (3) not payments reported as from an SSTB, unless your taxable income is at or

below the threshold, in which case payments from SSTBs are included in your QBI.

If you received qualified payments reported to you on Form 1099-PATR from a specified agricultural or horticultural cooperative, you must reduce your QBI by the patron reduction and use Form 8995-A to compute your QBI deduction.

Determining if items on Schedule C (Form 1040 or 1040-SR) are included in QBI. The net gain or loss reported on your Schedule C (Form 1040 or 1040-SR) isn't automatically included in your QBI. See the QBI Flow Chart, later to figure if an item of income, gain, deduction, or loss is included in QBI.

## Determining Your Qualified REIT Dividends and Qualified PTP Income/ Loss

Qualified REIT dividends include any dividends you received from a REIT held for more than 45 days and for which the payment isn't obligated to someone else and that isn't a capital gain dividend or qualified dividend, plus your qualified REIT dividends received from a regulated investment company (RIC). This amount is reported to you on Form 1099-DIV, line 5.

Qualified PTP income or loss includes your share of qualified items of income, gain, deduction, and loss from a PTP. It also may include gain or loss recognized on the disposition of your partnership interest that isn't treated as a capital gain or loss.

**Note.** PTP income generated by an SSTB may be limited to the applicable percentage or excluded if your taxable income exceeds the threshold, in which case you may need to complete Part II of Schedule A (Form 8995-A). See the instructions for Form 8995-A for more information.

## Specific Instructions

#### Line 1

If you aggregated multiple trades or businesses into a single business, enter the aggregation group name. For example, Aggregation 1, 2, 3, etc., instead of entering the business name, and leave line 1(b) blank.

**Note.** If you aggregated trades or businesses, you must attach Schedule B (Form 8995-A) or similar schedule.

If you are relying on the safe harbor contained in <u>Revenue Procedure 2019-38</u>, enter each enterprise as identified on the statement required for use on the safe harbor. For example, Enterprise 1, 2, 3, etc.

Enter on line 1(b) the employer identification number (EIN). If you don't have an EIN, enter your social security number (SSN) or individual taxpayer identification number (ITIN). If you're the sole owner of an LLC that isn't treated as a separate entity for federal income tax purposes, enter the EIN given to the LLC. If you don't have an EIN, enter the owner's name, and tax identification number.

#### Line 2

If you have more than five trades or businesses, attach a statement with the name and taxpayer identification number of the trade(s) or business(es) and include the income and loss from those trade(s) or business(es) in the total for line 2.

#### Line 3

Include prior year qualified loss carryforwards even if the loss was unreported or the trade or business that generated the loss is no longer in existence. Also, include the QBI portion of losses or deductions suspended from use in calculating taxable income in the year generated that are included in taxable income in the current year. See <a href="Determining Your Qualified Business">Determining Your Qualified Business</a> Income, earlier.

#### Line 4

If you have a qualified business net loss for the year, you don't qualify for the QBI deduction unless you have qualified REIT dividends or PTP income. The loss will be carried forward to next year. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

#### Line 6

Enter income as a positive number and losses as a negative number.

#### Line 8

Any negative amount will be carried forward to the next year. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

#### Line 11

Enter your taxable income figured before any QBI deduction, computed as follows.

- Form 1040 or 1040-SR filers: Form 1040 or 1040-SR, line 8b, minus Form 1040 or 1040-SR, line 9.
- Form 1040-NR filers: Form 1040-NR, line 35, minus Form 1040-NR, line 37.
- Form 1041 filers: Form 1041, line 23, plus Form 1041, line 20.
- Form 1041-N filers: Form 1041-N, line 13, plus qualified income deduction reported on Form 1041-N, line 9.
- Form 990-T filers: Form 990-T, line 39, plus qualified business income deduction reported on Form 990-T, line 38.

• S-corporation portion of an ESBT filers: ESBT Tax Worksheet, line 13, plus ESBT Tax Worksheet, line 11.

#### Line 12

Enter the amount from your tax return as follows.

- Form 1040 or 1040-SR, line 3a, plus your net capital gain. If you're not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040 or 1040-SR, line 6. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero or less, in which case nothing is added to the qualified dividends.
- Form 1040-NR, line 10b, plus your net capital gain. If you're not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040-NR, line 14. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero

or less, in which case nothing is added to the qualified dividends.

- Form 1041, line 2b(2), plus your net capital gain. For estates or trusts required to file Schedule D (Form 1041), add the qualified dividends to the smaller of Schedule D (Form 1041), line 18a(2), or line 19(2), unless either line 18a(2) or 19(2) is zero or less, in which case nothing is added to the qualified dividends.
- Form 1041-N, line 2b, plus the smaller of Form 1041-N, Schedule D, line 10 or 11, unless line 10 or 11 is zero or less, in which case nothing is added to the qualified dividends.
- Form 990-T filers who are trusts, Schedule D (Form 1041), the smaller of line 18(a)(2) or 19(2), unless either line 18(a)(2) or 19(2) is zero or less, in which case the net capital gain for purposes of section 199A is zero.
- S-corporation portion of an ESBT, your ESBT Tax Worksheet, line 2b, plus the smaller of your ESBT's Schedule D (Form 1041), line 18a(2) or 19(2) is zero or less, in which case nothing is added to your qualified dividends.

#### Line 15

Enter this amount on your Form 1040 or 1040-SR, line 10; Form 1040-NR, line 38; Form 1041, line 20; Form 1041-N, line 9; Form 990-T, line 39; S-corporation portion of an ESBT, line 11.

#### Line 16

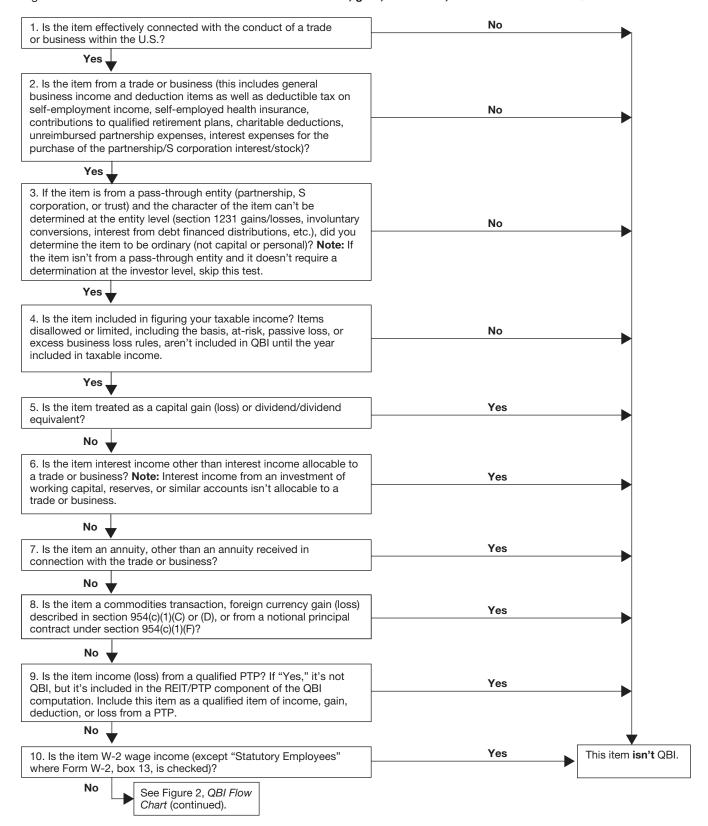
This is the amount to be carried forward to the next year. This amount will offset QBI in later tax years regardless of whether it's reported and the trade or business that generated the loss is still in existence. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

#### Line 17

If the amount is more than zero, the loss must be carried forward to next year. This amount will offset REIT/PTP income in later tax years regardless of whether it's reported and the trade or business that generated the loss is still in existence. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

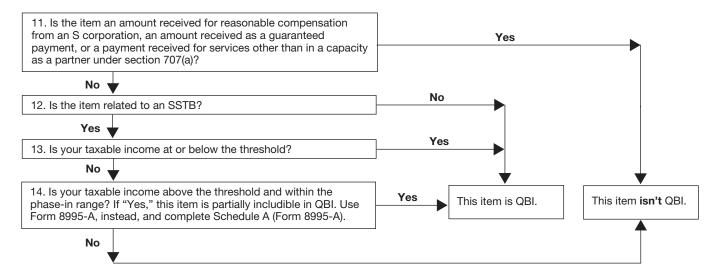
### **QBI Flow Chart**

Figure 1. Use this chart to determine if an item of income, gain, deduction, or loss is included in QBI.



## **QBI Flow Chart** (continued)

Figure 2. Use this chart to determine if an item of income, gain, deduction, or loss is included in QBI.



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returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.